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SUMMARY OF REPORTS ISSUED

October 4, 1999

The Honorable Richard Holland, Chairman
and
Members, Joint Legislative Audit and Review Commission
General Assembly Building
Capitol Square
Richmond, Virginia 23219

This transmits our quarterly summary of reports issued for the period July 1, 1999 through September 30, 1999.

The *Executive Summary* includes reports that may be of special interest to the members of the Commission. We have included a report in the summary for the sole purpose of bringing to your attention matters of significance. These summaries do not include all findings within a report or all reports with findings.

The *Summary of Reports Issued* lists all reports released during the quarter and shows reports that have audit findings.

We will be happy to provide you, at your request, any reports in their entirety. We welcome any comments concerning this report or its contents.

Sincerely,

Walter J. Kucharski
Auditor of Public Accounts

WJK:aom

INTEGRATED HUMAN RESOURCES INFORMATION SYSTEM

Review of Project Objectives, Plan, Schedule, and Budget

The project objectives, plan, schedule, and budget serve as the architectural design and blueprint of the project outlining the critical information for both management and the project team to control and manage the work. The information within these items set forth the staff work plan and the needs, timing, and expertise that contractors and others must bring to the project. Finally, this information should provide sufficient detail so that all members of the project team, whether employees or contractors, can continue the project if a key member of the team leaves.

In preparing this report, we requested the project objectives, plan, schedule, and budget. We made our initial request on July 16, 1999, and received this information on August 13, 1999. This information should serve as the basis for redirecting the project and help in setting the technology scope of the project and should have been readily available.

An April 23, 1999, report from the Secretaries of Finance and Technology to the Governor stated that the goals of IHRIS remain consistent with the original intent, although the project would take a new direction using a new technology to achieve the project's goals. The detailed project plan we received does not show where all functionality envisioned by the original plan is in the new technology. For example, the new plan does not include some original modules, such as Training Administration, Health and Safety, and Payroll, and provides no indication as to the reason for their omission.

The project plan and schedule are incomplete and do not provide sufficient detail for the administration and monitoring by both management and the project team. We believe that the incompleteness of the plan has resulted in the use of consultants to issue several procurement solicitations that the project team then cancelled before awarding the contract.

The project budget is incomplete and we could not find support for some estimates. We have concerns that IHRIS, even with its reduced scope, will not remain within the \$2.5 million budget.

In addition to the Project Manager, all IHRIS team members need to have a full understanding of the scope and direction of the project. An adequate understanding of the plan and its direction is an essential element of any project of this size and complexity. This understanding is necessary, so all members of the team understand how their work fits within this complex structure. But, more importantly, that there is a sufficient knowledge base so that the loss of one key team member will allow the rest of the project team to assume and takeover the project's management.

The lack of complete and detailed plans for a project this size raises questions about the project's ability to meet the implementation schedule, monitor and control budget costs, and provide for succession planning if the Project Manager or another key employee left the project. Detailed project objectives, plan, schedule, and budget provide a basis to resolve all of these questions.

Since the Project Manager is continuing to use funding resources devoted to IHRIS, the Steering Committee should require specific detailed project objectives, plan, schedule, and budget. As the plan changes, the Project Manager should modify the documents accordingly. Further, they should require an analysis of original IHRIS functionality for planned components and how the new plan will address these functional concerns. We understand the Steering Committee has not met since April 1999, and has not taken detailed action on the new direction of the project.

DEPARTMENT OF GENERAL SERVICES STATE SURPLUS PROPERTY PROGRAM

Our audit of the State Surplus Property Program of the Department of General Services for the year ended June 30, 1998, found that:

- the Division of Purchase and Supply (DPS) has begun an initiative to create an electronic catalog of surplus items for sale to increase their visibility and their ability to monitor program performance;
- DPS has begun reviewing ways to increase the authority it delegates to agencies to declare and dispose of their surplus property with limited assistance;
- DPS has begun a pilot program to pick-up surplus property at agency locations instead of relying on agencies to deliver property to warehouses; and
- DPS has begun investigating other initiatives such as redesigning its Richmond warehouse and rehabilitating property before sale.

These initiatives are appropriate steps to improve and streamline the current surplus property process. We recommend that DPS implement these initiatives to ensure it realizes its objectives and enhances the effectiveness of the program. To help monitor the progress toward implementing each initiative, management should receive periodic evaluations of each initiative's progress.

THE DEPARTMENT OF MENTAL HEALTH, MENTAL RETARDATION, AND SUBSTANCE ABUSE SERVICES

The Department consists of nine mental health facilities, five training centers, one medical center, and a central office. Facilities must meet standards of quality set by the Joint Commission for Accreditation of Health Care Organizations, the U.S. Health Care Financing Administration, and the U.S. Department of Justice.

The Department funds 40 community services boards (CSBs), which allow local governments to establish and maintain community mental health, mental retardation, and substance abuse programs. CSBs function as service providers, client advocates, community educators, program developers, and service planners. The Department allocated over \$175 million to CSBs in fiscal year 1998. Other CSBs funding sources include Medicaid, local government taxes and contributions, workshop fees, and miscellaneous revenues.

Beginning July 1, 1999, CSBs will administer state-funded programs using a performance contract. If CSBs do not meet the performance standards in the contract, the Department may contract with other entities to provide local services.

FINANCIAL STATUS

Over 40 percent, or \$245 million, of the Department's funding for operations comes from the collection of billings for patient services. Like other health care providers, the Department bills Medicaid, Medicare,

insurance carriers, and patients for treatment services. With declining inpatient levels and a shift to community-based services, the Department is experiencing difficulty in raising and maintaining this level of revenue. Current projections of patient revenue indicate that the Department may have a shortage as great as \$4 million at June 30, 1999, and will not have sufficient cash to repay its entire treasury loan on September 1, 1999. Without implementing certain corrective actions, the potential exists for increasingly larger deficits in the future.

Several factors contribute to the potential shortfall, some of which are beyond the Department's ability to manage and control. Other factors, however, relate to the Department's inability to accurately project revenue collections and coordinate and control operations among the facilities. If the Department cannot find means to offset the decline in revenues, it will need to either request increased budgetary support from the General Fund of the Commonwealth or reduce services. Declining inpatient population will eventually result in the need to take one of these actions if the Department continues to maintain the level of service delivery expected by current patient populations.

We identified four factors contributing to the current revenue situation that affect the Department's ability to respond:

1. changes in Medicare daily patient reimbursements and disallowed Medicare cost report amounts;
2. Medicaid's reimbursement restrictions limit payments for services;
3. U.S. Department of Justice's reviews have increased the cost of services at certain facilities which limit the Department's ability to control total costs; and
4. the Department's processes do not support or provide information for accurate projections of both revenues and costs control.

In addition, the Department is making a concerted effort to move patients from an institutional to a community-based environment, which reduces patient level and revenue. If the Department continues the same mixture of programs and methods of program delivery, there will be a need for increased participation by the General Fund of the Commonwealth in funding operations.

Our report discusses each of the factors above and we provide the actions the Department is undertaking to address the situation.

VIRGINIA MILITARY INSTITUTE

We conducted the review of the Superintendent's discretionary account based on a request by Bruce C. Gottwald, President of the VMI Board of Visitors, to investigate possible improper expenses. On June 22, 1999, we began our review of disbursements from the Superintendent's discretionary account.

The report on the Superintendent's discretionary account recommends that the Board of Visitors review expenses totaling \$46,776 that we could not establish a clear benefit to the Institute nor could we determine that the Superintendent made these purchases intentionally for his personal use.

In addition to the review and potential repayment of the transactions discussed above, we recommend the following actions.

1. The Board of Visitors should adopt detailed guidelines for the use of this account and all other public funds under their control.
2. The Board of Visitors should set guidelines for Staff to report directly to a committee of the Board any action that does not comply with the guidelines above.
3. The Board of Visitors should determine if there are any funds outside the Institute's public funds available to the Superintendent for discretionary purchases and if it is appropriate for the Superintendent to have access to these funds.

The report included both the audit of the Virginia Military Institute's financial statements for the year ended June 30, 1998 and a review of the Superintendent's discretionary account for the period January 1, 1997 through April 30, 1999. Our report of Virginia Military Institute for the year ended June 30, 1998, found:

- the financial statements are presented fairly, in all material respects;
- internal control matters that we consider to be reportable conditions; however, we do not consider any of these to be material weaknesses; and
- no instances of noncompliance required to be reported under Government Auditing Standards.

SUMMARY OF REPORTS ISSUED

The following reports on audit were released by this Office during the period July 1, 1999 through September 30, 1999. Those reports which included findings in the area of internal controls or compliance are indicated by an (*) asterisk.

State Agencies and Institutions

Executive Departments

Commerce and Trade

Department of Forestry For the Year Ended June 30, 1998

Southeast Virginia Farmers Market For the Period June 1, 1998 Through November 19, 1998*

Education

Colleges and Universities

Blue Ridge Community College As of June 30, 1998

Central Virginia Community College As of June 30, 1998

Christopher Newport University For the Year Ended June 30, 1998

The College of William and Mary For the Year Ended June 30, 1998*

The College of William and Mary, Intercollegiate Athletic Programs For the Year Ended June 30, 1998

Dabney S. Lancaster Community College As of June 30, 1998

James Madison University For the Year Ended June 30, 1998*

James Madison University, Intercollegiate Athletic Programs For the Year Ended June 30, 1998

Longwood College For the Year Ended June 30, 1998

Longwood College, Intercollegiate Athletic Programs For the Year Ended June 30, 1998

Mary Washington College For the Year Ended June 30, 1998*

Radford University For the Year Ended June 30, 1998*

Radford University, Intercollegiate Athletic Programs For the Year Ended June 30, 1998

Virginia Commonwealth University, Intercollegiate Athletic Programs For the Year Ended June 30, 1998

Virginia Community College System For the Year Ended June 30, 1998*

Virginia Military Institute For the Year Ended June 30, 1998*

Health and Human Resources

Department of Health Professions For the Period July 1, 1997 Through December 31, 1998

Integrated Human Resources Information System As of August 1999

Department of Mental Health, Mental Retardation and Substance Abuse Services For the Year Ended

June 30, 1998*

Natural Resources

Department of Environmental Quality For the Year Ended June 30, 1998

Department of Marine Resources Commission For the Year Ended June 30, 1998

Public Safety

Department of Fire Programs For the Period January 1, 1998 Through March 31, 1999*

Department of Military Affairs For the Year Ended June 30, 1998

Independent Agencies

Virginia's A.L. Philpott Manufacturing Extension Partnership For the Year Ended June 30, 1998

Virginia Workers' Compensation Commission For the Twenty-One Months Ended March 31, 1999

Clerks of the Circuit Courts

Cities:

City of Alexandria For the Period July 1, 1997 Through June 30, 1998*

City of Charlottesville For the Period July 1, 1997 Through June 30, 1998*

James City and City of Williamsburg For the Period July 1, 1997 Through June 30, 1998

City of Richmond For the Period July 1, 1997 Through June 30, 1998*

City of Winchester For the Period July 1, 1997 Through June 30, 1998*

Counties:

County of Charlotte For the Period July 1, 1997 Through June 30, 1998

County of Essex For the Period July 1, 1996 Through June 30, 1998*

County of Henry For the Period July 1, 1997 Through June 30, 1998

County of Isle of Wight For the Period July 1, 1997 Through June 30, 1998

County of Nottoway For the Period July 1, 1997 Through June 30, 1998*

County of Orange For the Period December 1, 1997 Through December 31, 1998

County of Pulaski For the Period July 1, 1997 Through June 30, 1998

County of Russell For the Period July 1, 1997 Through June 30, 1998

County of Wythe For the Period July 1, 1997 Through June 30, 1998

General Receivers

Cities:

General Receiver of the Circuit Court of the City of Alexandria For the Period July 1, 1996 Through June 30, 1998

General Receiver of the Circuit Court of the City of Charlottesville For the Period July 1, 1996 Through June 30, 1998

Counties:

General Receiver of the Circuit Court of the County of Arlington For the Period July 1, 1996 Through June 30, 1998

General Receiver of the Circuit Court of the County of Essex, Lancaster, Northumberland, Richmond, and Westmoreland For the Period July 1, 1996 Through June 30, 1998

General Receiver of the Circuit Court of the County of Fairfax For the Period July 1, 1996 Through June 30, 1998

General Receiver of the Circuit Court of the County of Isle of Wight For the Period July 1, 1997 Through June 30, 1998

General Receiver of the Circuit Court of the County of Lee For the Period July 1, 1997 Through June 30, 1998

General Receiver of the Circuit Court of the County of Loudon For the Period July 1, 1997 Through June 30, 1998

General Receiver of the Circuit Court of the County of Suffolk For the Period July 1, 1997 Through June 30, 1998